

UC MERCED INTERNAL AUDIT AND ADVISORY SERVICES

April 21, 2016

To: Michael Reese – Vice Chancellor for Business and Administrative Services

Subject: Systemwide Construction Audit

Ref: Audit Report No. M16A009

UC Merced Internal Audit has completed an audit of the Classroom and Office Building 2 construction project. The audit was part of the Fiscal Year 2015 – 2016 audit plan. The audit reviewed compliance with UC Policy and spending on the project through February 29, 2016. This audit was part of a systemwide audit that reviewed construction projects on all ten campuses and the Lawrence Berkeley National Laboratory.

We appreciate the help we received from Design and Construction and Accounting Services staff during the audit.



Todd Kucker
Internal Audit Director

Attachment:

cc: SVP Vacca
Chancellor Leland
Associate Chancellor Putney
Systemwide Deputy Audit Officer Hicks
Interim Assistant Vice Chancellor and Campus Architect Chow
Assistant Vice Chancellor and Controller Riley
Interim Director of Construction Services Telechea
Executive Director Deegan
Director Groesbeck

**UNIVERSITY OF CALIFORNIA, MERCED
AUDIT AND ADVISORY SERVICES**

**Systemwide Construction Audit
Report No. M16A009**

April 21, 2016

Work Performed by:
Brandi Masasso, Internal Audit
Kari Gomes, Internal Audit Mentee
Todd Kucker, Internal Audit

Management Summary

As part of the Fiscal Year 2015 – 2016 audit plan, UC Merced Internal Audit has completed an audit of the Classroom and Office Building 2 construction project. As the construction project has not yet been completed, the scope of the audit considered work and spending through February 2016. The review was part of a systemwide audit that was performed on all ten UC Campuses and Lawrence Berkeley National Laboratory.

During the audit, we reviewed the bidding process, compliance with UC policy, and change order documentation. The change orders we reviewed accounted for more than 50% of the \$1,259,843 worth of change order costs incurred on the project (through February 2016).

Overall, we concluded that processes related to awarding work complied with UC policies and that Design and Construction staff have effectively managed the construction project. The following report further explains the details of our testing and the results.

Objectives and Scope

Internal Audit has completed an audit of the Classroom and Office Building 2 construction project, which was part of the Fiscal Year 2015 – 2016 audit plan. This audit was part of a UC systemwide audit where construction projects were audited on each campus and at Lawrence Berkeley National Laboratory. The purpose of this audit was to assess the effectiveness of construction management policies and procedures and internal controls and processes related to the administration of construction activities and, specifically bidding, change order and funding requirements.

The audit objectives were:

- To confirm that construction project bids were in compliance with UC Facilities Manual requirements;
- To ensure that the contractor and subcontractors were enrolled and covered under the UC Insurance Policy according to program underwriting requirements;
- To verify that the construction project was in compliance with applicable contract terms and conditions; and,
- To review compliance with restrictions and requirements related to funding.

The systemwide audit included construction projects with an original budget over \$25 million which were still in process at the time of the audit. At UC Merced, the Classroom and Office Building 2 construction project was selected.

The scope of the audit included the bid and award process, change orders execution, compliance with funding requirements, and compliance with the UC Insurance Program (UCIP) of the Classroom and Office Building 2 project. The original approved budget for the state-funded project was \$53,973,000. Construction of the building began during 2014 and the building is scheduled to be completed during 2016.

To accomplish the audit objectives, the following steps were performed:

Bid and Award Process

To review the bid process, we reviewed the bids received for the Classroom and Office Building 2 project. We reviewed the bidding procedures included in the UC Facilities Manual and evaluated the advertising for bids process, administration of the bid process, the bid evaluations and bidder selections, and other processes as performed by the project team.

Change Orders Execution

To review processes related to change orders, we reviewed change orders paid through February 29, 2016 on the Classroom and Office Building 2 project. Four change order packages were reviewed to determine if change orders were submitted in compliance with the vendor contracts. The change orders reviewed accounted for more than 50% of the \$1,259,843 worth of change order costs incurred so far on the project. We verified that backup documentation adequately explained the reason for the change order work and the costs associated with the work.

Funding Requirements

To review restrictions and requirements related to funding, we reviewed the most frequently used sources of funding for construction projects during the past three years. We reviewed funding documents and discussed requirements with Design and Construction staff to determine how the campus monitors compliance with funding restrictions or requirements.

UC Insurance Program (UCIP)

To review whether the general contractor and subcontractors were properly enrolled and covered under UCIP, we reviewed information from the UCIP Administrator to determine whether requirements had been complied with.

Background

At UC Merced, Design and Construction manages the campus' major capital projects. The following is their mission: "Design and Construction is a multidisciplinary team of architects and construction professionals within the division of Business and Administrative Services responsible for the design and development of UC Merced's buildings and infrastructure. From UC Merced's earliest days, the department works to build modern, sustainable facilities in a work environment dedicated to excellence and innovation."

The Classroom and Office Building 2, formerly known as the Classroom and Academic Office Building, will be a 77,348 facility to support instruction and research activities for the School of Social Sciences, Humanities and Arts. Adjacent to the Kolligian Library, it will include classrooms, tutorial space, dry research laboratories, scholarly activity, and academic and administrative offices.

The project was procured using the Construction Manager at Risk delivery method. After a construction management firm was selected, bidding was completed to select twenty-five trade packages completed by subcontractors. The building was designed in hopes of achieving LEED Platinum certification.

The majority of funding for the construction project was provided by external financing serviced by State of California appropriations.

Conclusion

From our audit, we concluded that the Classroom and Office Building 2 project has been effectively managed by Design and Construction. We did not identify significant issues during our review of the bid process, spending on the project, and compliance with UC policy and funding requirements. Also, it appears that the overall spending and timing of the construction project have been in line with the planning and approvals.